

# Monster Mortgage.ca



## Don Bayer

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Don is President and founding partner in MonsterMortgage.ca, and MonsterInsurance.ca. An Accredited Mortgage Professional and Certified Financial Planner, Don has over 20 years of lending and real estate investment experience and specializes in structuring construction and tax advantaged investments.

He has been called upon by local and national media including *The Globe and Mail*, *CTV* and *CBC* to comment on mortgages in Canada and is one of the resident experts on the TV show *Hot Property* aired weekly on CP24. Don is also a regular columnist for *Canadian Real Estate Magazine*, Canada's property magazine for first-time homebuyers and real estate investors.

MonsterMortgage.ca has built its success providing superior customer service and ensuring you are fully aware of the facts the banks won't tell you about financing property and bad debts.



## Don't Look a Gift Horse in the Mouth

For the past eight years, since we started our **Renewal Newsletter**, we have debated amongst ourselves (and our over 10,000 mortgage clients) the merits of taking a variable rate mortgage as opposed to a five-year fixed rate.

Since the inception of the variable rate mortgage in the mid 1990's, all studies have shown that taking a variable rate will save you money in the long run. The most famous of these reports, **Mortgage Financing, Floating Your Way to Prosperity**, produced by York Professor of Finance, Moshe Milevsky, is quite convincing. *But with interest rates at the lowest level in history, is there an opportunity to hedge against the impending rate increases that the entire world is waiting for? Let's have a look.*

Today's lowest five-year rate is around 3.80%. The corresponding variable rate is about 2.0%, or Prime minus .25%. At the time of this article, Prime is 2.25% and the Bank of Canada Governor has stated on record that the Bank Rate will not move until there are "signs of new employment in Canada", sometime later this year. The financial crisis of 2009 did exact damage on the Canadian economy eliminating over 200,000 jobs.

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# CP 24

## TUNE IN PRIME TIME!

MonsterMortgage.ca  
experts on CP24's **Hot Property**  
7:15 p.m. Thursday

See us on **Cable Pulse 24's** television program "Hot Property" with host **Ann Rohmer** and mortgage expert Don Bayer from **MonsterMortgage.ca** for all the facts your bank won't tell you about real estate financing and cost saving strategies. For additional show times, check your local television listings or call our office.



# What could your Gift Horse look like?



**One of the strategies we have developed and discuss with new clients** revolves around locking in their mortgage at these historically low rates today. Many people want to take advantage of the variable rate, but as we all know, once the Bank of Canada sees any sign of prosperity, the prime rate in Canada will rise to more normal levels. By raising rates, it cools off the economy.

Fixed rates generally move a few months ahead of the prime rate as the commercial market adjusts much faster to the real economy. This makes it difficult to get the benefit of today's low fixed rates, because they move ahead of the Bank of Canada rate.

The first part of this concept deals with an individual's risk tolerance, or risk aversion as I like to call it.

MonsterMortgage.ca has developed a series of questions that a home owner should answer every time they negotiate a mortgage. There is no science behind the questions, but your answers will definitely lead you in the right direction as they'll reflect the level of risk that appeals to you (high, medium or low).

If we use an example of a \$300,000.00 mortgage, I can illustrate the effect of our **Long-Short Strategy**. The concept is quite simple once you decide on the acceptable level of risk.

## Let's take a look at this example.

For the first part, you would risk 60% of the mortgage amount (*and by risk I refer to taking a variable rate mortgage that you know has nowhere to go but up sometime in the future*). For the second part, 40% of the mortgage would be fixed, whereby the interest rate and payment remain constant for five years. It would then look like this:

**60% \* \$300,000.00 = \$180,000.00 at 2.0% (variable)**  
**40% \* \$300,000.00 = \$120,000.00 at 3.80% (fixed)**

The effective rate for the above mortgage is 2.75%. This is calculated by simply blending the two rates by the weighted average of their respective mortgages. The interesting part of this concept is because the variable is weighted higher in this example (60%/40%) a 0.25% increase in prime would only affect 60% of the mortgage and therefore would mute the increase to only 0.15%.

If we change the strategy to emphasize greater security, it may look something like this:  
**60% \* \$300,000.00 = \$180,000.00 at 3.80% (fixed)**  
**40% \* \$300,000.00 = \$120,000.00 at 2.0% (variable)**

The effective rate now moves up to 3.08% and once again a 0.25% increase in prime will only raise this mortgage by 0.10%. In essence, you are paying a higher rate but are locking in 60% of the risk.

This concept is ideal for someone that wants to expose a portion of their mortgage to the market but in a controlled environment. There are a few great mortgage products offered by some of Canada's top banks that are designed specifically for this idea.



## **Did you take a Variable Mortgage in the past 2 years at Prime plus Something???**

When the financial crisis began in the summer of 2008, the banks in Canada immediately increased their variable rate mortgages to Prime plus 0.50% or Prime plus 1.0%. For many of our clients this was still an attractive mortgage rate compared to fixed rate mortgages at the time.

Fast forward 15 months and markets have settled down and changed. With this renewed sense of calm, variable rates have decreased and there are new opportunities to once again review your mortgage contract and save money. **The new rates are significantly lower so please give me a call to review your mortgage agreement.**

The penalty to break your mortgage could be made back in less than nine months leaving you with over four years to save more interest and pay down your mortgage faster. Call me today and I can run your mortgage numbers for you.

**It will just take a minute and could save you \$1,000's on your mortgage!**

What makes this more appealing is that as you pay down the mortgage(s) it creates a secured line of credit that gives you access to your home equity at any time in the future. You may never have to go through the hassle of refinancing again!

At our most recent mortgage information and training session, our President made an interesting remark that is worth sharing: *"In the 1990's, when interest rates were hovering around 12% and I would complain to my parents about how much I was paying, they would always remind me of when interest rates were 20% and then exclaim "How lucky you kids are today to pay only 12%!"*

Fast forward almost 20 years, and it's hard to believe that rates could ever be **THIS low**, yet we continue to roll the dice with our entire mortgage debt. Perhaps one day we will look at our kids and grandchildren and say, *"I remember when rates were 2%!"* I'm sure they will look at us and shake their heads in disbelief.



**Call me today if you want to discuss how you might be able to take advantage of this mortgage strategy.**

**We'll help you pay down your debt faster with a strategy that makes sense and is right for you.**

## **Renewing Your Mortgage**

Your mortgage term has expired and you are now a "free agent". One of the smartest things you can do is have a Mortgage Agent shop your mortgage renewal to over 20 lenders who all want your business. At [MonsterMortgage.ca](http://MonsterMortgage.ca) we do the work for you and we can guarantee you a rate four months in advance of your renewal date which can save you thousands of dollars in interest costs and contribute to your bottom line, not your bank's.

**Call me today to find out how to save money when renewing your mortgage.**

# 10 year term?

## There's a reason why the banks have a big smile on their face as they escort you out of their office.

By Vince Gaetano, AMP, Principal Broker, Vice President, MonsterMortgage.ca

*It is important that Canadians understand the problem with a ten-year mortgage and how to protect themselves and be better off with another strategy.*

First off, the ten-year term mortgage is a significant money-maker for the bank and the mortgage professional but **a sucker play for the Canadian homeowner**. A ten-year term solidifies a very large yield for the bank for a long period of time and compensates the mortgage professional almost double that of a five-year term. The client, on the other hand, pays a large premium and is not further ahead. However, there is a strategy that would yield a better outcome and still provide peace of mind.

**Let me explain using a \$100,000 mortgage with a 25-year amortization:**

The ten-year term at 5.30%, in this example, results in a monthly payment of \$598.80 and after the five-year mark, the mortgage balance will be **\$88,919.23**. After the ten-year term is expired, the balance would be **\$74,525.95**. This is provided all monthly payments are made on time. These are two very important milestones to keep in mind.

**A more beneficial strategy** would be to opt for the five-year term at 3.79% and change your monthly payment to \$598.80 based on the ten-year term rate. Instead of paying the bank a premium for the additional 5 years, you will be paying yourself – **your mortgage**. At the five-year mark, you will owe \$81,190.57 which is **\$7,728.66 less than what you would owe with the ten-year option's higher payment**.

But what happens after five years? Where will rates go? This is a good question. Let's assume rates will increase to 6.78% which is the average rate for the past decade. Owing \$81,190.57 at this point, your payment will increase by \$15.47 per month resulting in additional payments totaling \$928.20 (\$15.47 x 60 months) for the last five years at the higher rate of 6.78%. Fortunately for the borrower, the balance at the end of the term would be **\$69,693.98**. Calculating the payment increase, **NOT TAKING** the ten-year term will save the borrower **\$3,903.77** in after tax income in this example.

In my opinion, I don't see the five-year increasing over 3.00% in the next five years so this assumption is quite conservative. The key to borrowing is that one needs to minimize the interest rate at the beginning of the amortization cycle – it is the point you owe the most money. The opportunity to pay down as much of the balance early can mitigate higher rates down the road because you owe less. For example, if one pays 5% when they owe \$100,000 the interest cost is \$5,000. If they pay the debt down to \$50,000 and the interest rate increases to 10%, the interest cost is \$5,000.

We need to educate Canadians to pay down debt and to not worry about interest forecasts. A higher interest rate (5.30% for ten years) prohibits a borrower from accelerating the payment of their mortgage – **the focus should be on PAYING DOWN DEBT**.

## Up for the Challenge?

### The 19th Annual MonsterMortgage.ca Toronto Challenge

Sunday, June 13th, 2010

Mark your calendars and plan to come out to walk or run to help enhance the living conditions for seniors in Toronto's fifty Homes for the Aged!

Visit:

<http://www.toronto.ca/challenge/>

Online registration now available at Running Room at:  
[www.events.runningroom.com](http://www.events.runningroom.com)

**See you there!**

### The Bank of Canada's 2010 Schedule for announcing decisions on key policy interest rates:

Tuesday, March 2, 2010  
Tuesday, April 20, 2010  
Tuesday, June 1, 2010  
Tuesday, July 20, 2010  
Wednesday, September 8, 2010  
Tuesday, October 19, 2010  
Tuesday, December 7, 2010

Clients who are committed to Variable Rate products may want to pay attention to these dates. Most, if not all, of our variable rate options are convertible to discounted fixed rates at any time. **Call our office if you have any questions.**

**Monster Mortgage.ca** APPLY NOW - PreApprovals, Buying, Renewing, Refinancing

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### The smarter alternative to dealing with one bank

Apply Online Now or speak to a Mortgage Agent at: **416.480.0234** or **1.877.819.3619** and get the facts your bank won't tell you about your mortgage.

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TERM	OURS (APR)	POSTED
variable	2.75%	AVA
1 yr	2.90%	4.90%
2 yr	3.05%	4.05%
3 yr	3.15%	4.14%
4 yr	3.79%	4.64%
5 yr	3.99%	5.14%
6 yr	5.10%	6.20%
7 yr	5.15%	5.60%
10 yr	5.05%	6.70%

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Learn More Learn More Learn More

## Visit our website.

**Check out our website** at [www.MonsterMortgage.ca](http://www.MonsterMortgage.ca) for lots of resources that will help you get started with your Mortgage Strategy.

Our blog features a weekly video that addresses unanswered questions from our appearance on the prime time CP24 show "Hot Property", in addition to a variety of topics that are important to you.

You can also register for email updates that will keep you posted on rate changes and new facts your bank won't tell you about your mortgage. **As always, we would love your feedback ... drop us a note at: [info@monstermortgage.ca](mailto:info@monstermortgage.ca).**

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